12/6/82 R4105-9 (U) A

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Financial Indicators and Corporate Financing Plans:

A Semiannual Survey
October, 1982

The Conference Board

The Conference Board Survey of Financial Indicators

October, 1982

Introductory Note: This is the thirteenth issue of a semiannual Conference Board survey initiated in October, 1976. Based on the views of a panel of senior financial executives of leading U.S. nonfinancial corporations, the survey reports their financing plans and the economic and financial expectations on which these plans are based.

Unlike the two preceding surveys, the thirteenth semiannual survey of Financial Indicators and Corporate Financing Plans was conducted in a period that followed an explosive rally in the stock market and a sharp decline in interest rates. In less than two months, key money-market rates fell by 5 percent; long-term rates also joined the decline, dropping by approximately 2 percent. Many companies that had been waiting for rates to drop to extend short-term debt issued bonds, beginning the long-awaited process of funding short-term debt that goes along with economic recovery. Doubts persisted, however, as to whether a recovery was really taking place.

According to the 37 senior financial executives who participated in this survey:

- An economic recovery is taking place, but at an unusually slow pace.
- Many companies are planning to rely more heavily on internal funds to meet their financial requirements.
- Interest rates in 1983 are expected to average slightly below existing interest rate levels.
- The U.S. dollar, which has been relatively strong despite the sharp decline in interest rates, is expected to weaken against the yen and the mark.

U.S. Financial Indicators

The participating financial executives see an economic recovery in 1983, but a relatively slow one in which the economy grows at an annual rate of 2.8 percent. In their first look at 1984, the panel sees real economic growth rising at a rate of 3.5 percent annually.

In line with these low rates of economic recovery, inflation is expected to average roughly 6.1 percent in 1983 and 6.2 percent in 1984. The rate for 1983 is approximately 1 percent below the rate expected in the April, 1982, survey. This is a significant change in expectations during a relatively short period of time. The panel's view of growth in money GNP for next year is broadly consistent with the Federal Reserve's money and credit targets for 1983.

Both long-term and short-term interest rates are expected to average slightly below present levels in 1983, and further declines—mostly in long-term rates—are seen in 1984. The Aaa rate is seen as averaging 12.2 percent in 1983 and 11.3 percent in 1984, as inflation continues to remain well-behaved and the recovery remains moderate. A "normal" yield curve (with short-term rates below long-term rates) is expected for 1983. The prime rate is seen averaging 12 percent next year. The panel had anticipated declines in interest rates in April, 1982, but not as sharp as those that have occurred to date.

Corporate Financing Plans—September 1, 1982 to August 31, 1983

Internal funds averaged 75 percent of total corporate funds in the period covered by the April, 1982, survey and a strong increase in companies' reliance on these funds was anticipated. However, despite a continued attempt to "put their houses in order," companies once again were unable to increase internal funds as the recession lowered corporate earnings more than was anticipated. Internal funds averaged 73 percent of total corporate funds during the 12-month period September 1, 1981, to August 31, 1982.

Companies were able to lengthen debt, as they had planned. Net bond issues accounted for more than 33 percent of total external funds; private placements for approximately 11 percent; and bank term loans for nearly 7 percent (term loans would have accounted for a much larger share except for one company's exceptionally large repayment of its loans). As anticipated, equity financing was reduced and accounted for only 10 percent of total external funds.

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Summary of Survey Responses

1. Please give your estimates of the average levels of the Aaa rate, the prime rate, and the Dow-Jones average for each month or year listed. Also, please give your estimates of real GNP and the GNP deflator, using annual rates of change.

Indicator	*Latest Available Average (at time of survey)*	*Outlook*			
		Average Dec. '82 (4th Q GNP)	*Average March '83 (1st Q GNP)*	*Average 1983*	*Average 1984*
New Aaa industrial rate (%)	14.0	12.8	12.4	12.2	11.3
Prime rate (%)	15.0	12.7	12.2	12.0	11.5
Dow-Jones Average (Index)	822.0	918.0	952.0	985.0	1,062.0
Real GNP (%)	1.7	2.3	2.5	2.8	3.5
GNP deflator (%)	5.3	6.0	5.9	6.1	6.2

2. In column A, please enter the actual percentage composition of funds which your corporation generated or raised during the past 12 month period. In column B, please show how the *relative* amount of each source of funds generated or raised by your corporation in the coming 12 month period will differ from the past 12 month period.

	A	*B Outlook (coming 12 months)—Number of Respondents*				
	Actual (past 12 months)	*Stable (Up or Down by less than 5 percentage points)*	*Up (percentage points)*		*Down (percentage points)*	
			5-9.99	*10 or more*	*5-9.99*	*10 or more*
(a) Composition of Total Funds						
Internal Funds[1]	73	13	7	6	2	4
External Funds	27	13	2	4	7	6
	100%					
(b) Composition of *External Funds*						
Net bond issues	33.4	12	1	7	0	6
Private placements	10.8	19	0	1	1	5
Net new equity	10.0	18	1	2	1	4
Bank term loans	6.7	17	1	3	2	3
Bank short-term loans	7.7	24	0	1	0	1
Commercial paper	20.4	19	0	3	0	4
Other	11.0	20	2	2	1	1
	100%					

[1]Retained earnings; charges for depreciation, depletion and amortization; sales of assets (excluding sale-leaseback proceeds); sales and redemptions of government and corporate securities.

3. Only if you are engaged in international operations, please indicate how each item below is expected to change against the U.S. dollar as of September 1,1982:

	Latest Available 9/1/82	*Expected Change (Number of Respondents)*									
		By Dec. 31, 1982					*By March 31, 1983*				
		Less than 1% change	*Appreciate 1%-5%*	*Appreciate ►5%*	*Depreciate 1%-5%*	*Depreciate ►5%*	*Less than 1% change*	*Appreciate 1%-5%*	*Appreciate ►5%*	*Depreciate 1%-5%*	*Depreciate ►5%*
Canadian dollar	$ .8080	11	6	0	12	1	4	7	0	19	0
British pound	1.72	13	7	0	9	1	8	11	1	9	0
German mark	.4023	6	16	1	6	1	5	17	6	2	0
Japanese yen	.0039	5	15	3	6	1	4	11	10	5	0
Gold	$405.25	2	11	12	2	0	2	13	13	1	1

Companies are again planning to place greater reliance on internal funds in the 12-month period beginning September 1, 1982. Thirteen executives look for internal funds to rise by at least 5 percentage points, while only six executives see internal funds declining in relation to total corporate funds.

The International Environment

The U.S. dollar continued to surprise international experts by remaining relatively strong throughout 1982—even after the very sharp decline in domestic interest rates in July and August of 1982. A strong majority of the financial executives whose companies engage in international operations, however, see both the Japanese yen and the German mark appreciating against the U.S. dollar between December 31, 1982, and March 31, 1983.

The outlook for the British pound is mixed in the sense that the majority does not see either an appreciation or depreciation. The majority, however, does expect the Canadian dollar to depreciate against the U.S. dollar by March 31, 1983, and thirteen executives see it depreciating by December 31, 1982.

Most participants see the price of gold, which rose substantially in the period preceding the survey, continuing to rise against the U.S. dollar in both forecast periods; nearly half of them see the price of gold rising by more than 5 percent.

A Postscript

Several executives indicated that their companies had, within the past year, increased their hurdle rates on new investment, largely to reflect the higher cost of capital. Other reasons given for raising rates were to reflect lower targeted debt-to-equity ratios and to make rates "conform to actual results reporting in real terms." One executive, however, noted that his company was in the process of changing its rate to reflect "a decrease in our expectations of future inflation rates."

Companies are continuing to take measures to improve their liquidity positions. These measures include closer monitoring of inventory positions and accounts receivable, tighter control and centralization of cash, and reductions in employment, salaries and travel. According to one executive: "A long-term governmental commitment to consistent fiscal policies is equally as important as any specific solution adopted."

Vincent G. Massaro

Please Note: In the interest of speeding the data contained in this publication to you, these series are now available on-line through The Conference Board Data Base. For more information, call Linette Stein at (212) 759-0900.

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